

City of Eastpointe, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of Eastpointe, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10-11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of Fund Balances to the Statement of Net Assets	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Proprietary Fund - Enterprise Fund:	
Statement of Net Assets	16
Statement of Revenue, Expenses, and Changes in Net Assets	17
Statement of Cash Flows	18
Fiduciary Funds:	
Statement of Net Assets	19
Statement of Changes in Net Assets - Pension and Other Employee Benefit Trust Funds	20
Component Units:	
Statement of Net Assets (Deficit)	21
Statement of Activities	22-23
Notes to Financial Statements	24-49
Required Supplemental Information	50
Budgetary Comparison Schedule:	
General Fund	51
Major Special Revenue Funds	52-54
Retirement System Schedule of Funding Progress	55
Retirement System Schedule of Employer Contributions	56
Note to Required Supplemental Information	57

City of Eastpointe, Michigan

Contents (Continued)

Other Supplemental Information	58
Nonmajor Governmental Funds:	
Combining Balance Sheet	59-61
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	62-64
Fiduciary Funds:	
Combining Statement of Net Assets	65-66
Combining Statement of Changes in Net Assets - Pension and Other Employee Benefit Trust Funds	67
Schedule of Indebtedness	68-69

Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Eastpointe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Eastpointe, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Eastpointe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Eastpointe, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and Members
of the City Council
City of Eastpointe, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Eastpointe, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 1, 2008

City of Eastpointe, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Eastpointe's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008 :

- The City continues to evaluate programs, staffing levels, and capital spending to maintain tight controls over all expenditures. Such proactive measures in the area of expenditure control resulted in an increase in General Fund fund balance of \$199,920, compared to the anticipated and budgeted loss of \$1,302,880.
- On November 8, 2005, Eastpointe voters passed a public safety millage of seven mills for five years to maintain public safety services provided by the police and fire departments of the City. In addition to the revenue generated from the millage, the General Fund continues to provide more than 50 percent of the total funding necessary to meet the financial requirements of maintaining these public safety services.
- With the expiration of the Fire-ALS millage in 2007, the anticipated decline in property tax revenue, and the economic impact on state-shared revenue, the City has designated \$7,000,000 for subsequent years' expenditures (see Note 1) to offset the increased burden faced by the City in future years. This designation mitigates the increase in undesignated fund balance at year end.
- Total net assets related to the City's governmental activities increased by approximately \$4.1 million. The unrestricted portion of net assets decreased by approximately \$1.2 million (see table of net assets on the following page).

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Eastpointe as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

The notes to the financial statements are found on pages 24-49. These notes are an integral part of the financial statements and should be read in conjunction with the remainder of the financial statements. It may be useful to read the notes prior to any detailed review of the various statements throughout the report.

The City of Eastpointe as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets	\$ 22,582	\$ 21,137	\$ 10,230	\$ 9,066	\$ 32,812	\$ 30,203
Noncurrent assets	23,269	18,709	31,141	30,368	54,410	49,077
Total assets	45,851	39,846	41,371	39,434	87,222	79,280
Liabilities						
Current liabilities	2,155	1,664	898	1,421	3,053	3,085
Long-term liabilities	6,896	5,443	10,388	10,901	17,284	16,344
Total liabilities	9,051	7,107	11,286	12,322	20,337	19,429
Net Assets						
Invested in capital assets -						
Net of related debt	18,331	15,253	16,512	15,496	34,843	30,749
Restricted	11,071	8,854	-	-	11,071	8,854
Unrestricted	7,398	8,632	13,573	11,616	20,971	20,248
Total net assets	<u>\$ 36,800</u>	<u>\$ 32,739</u>	<u>\$ 30,085</u>	<u>\$ 27,112</u>	<u>\$ 66,885</u>	<u>\$ 59,851</u>

The City of Eastpointe's combined net assets increased approximately 11.8 percent from a year ago, from approximately \$59.9 million in 2007 to \$66.9 million in 2008. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$4.1 million in net assets, or 12.4 percent during fiscal year 2008. This is largely due to the additional public safety millage, approved by the City's residents to help fund public safety services provided by the police and fire departments of the City. The funds generated by the millage have relieved the General Fund of less than 50 percent of the full burden of funding for public safety services, which has allowed the City to invest in much needed improvements and repairs to various City facilities and equipment. The business-type activities experienced a \$2.9 million increase in net assets, or 11.0 percent. The increase in net assets reflects the City's ongoing improvement program to the water and sewer system infrastructure.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, decreased by approximately \$1.2 million for the governmental activities. This represents a decrease of approximately 14.3 percent. The current level of unrestricted net assets for our governmental activities stands at \$7.4 million, or about 27.4 percent of expenses.

The following table shows the changes of the net assets during the current year (in thousands):

	Governmental		Business-type Activities		Total	
	Activities					
	2008	2007	2008	2007	2008	2007
Revenue						
Program revenue:						
Charges for services	\$ 4,442	\$ 4,771	\$ 9,186	\$ 9,837	\$ 13,628	\$ 14,608
Operating grants and contributions	2,088	2,254	-	-	2,088	2,254
Capital grants and contributions	496	432	692	-	1,188	432
General revenue:						
Property taxes	19,275	19,815	-	-	19,275	19,815
State-shared revenue	3,730	3,730	-	-	3,730	3,730
Interest	1,308	1,026	238	269	1,546	1,295
Gain (loss) on sale of capital assets	(64)	(17)	2	-	(62)	(17)
Cable fees and other	364	332	5	5	369	337
Transfers and other revenue	(595)	(758)	595	758	-	-
Total revenue	31,044	31,585	10,718	10,869	41,762	42,454
Program Expenses						
General government	6,847	7,084	-	-	6,847	7,084
Public safety	13,266	12,795	-	-	13,266	12,795
Public works	3,749	4,364	-	-	3,749	4,364
Recreation and culture	2,841	2,473	-	-	2,841	2,473
Interest on long-term debt	280	61	-	-	280	61
Water and sewer	-	-	7,745	8,291	7,745	8,291
Total program expenses	26,983	26,777	7,745	8,291	34,728	35,068
Change in Net Assets	\$ 4,061	\$ 4,808	\$ 2,973	\$ 2,578	\$ 7,034	\$ 7,386

Governmental Activities

The City of Eastpointe's total governmental revenues were approximately \$31.0 million, despite decreases in charges for services, property taxes, and operating grants. These decreases were offset partially by increases in interest and other income.

Governmental activity expenditures of approximately \$27.0 million were recorded for the year. Program expenditures reflect a minimal increase over the previous year mostly due to increased operational costs associated with public safety such as personnel, gas and oil, equipment purchases, and retirement-related cost. Decreases to other areas of program expenses, such as general government and public works, assisted in controlling the overall impact of the increased cost of maintaining public safety services. The City will continue to closely monitor spending while considering the needs of the community.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City of Eastpointe's business-type activity consists of the Water and Sewer Fund. The City provides to residents water purchased from the City of Detroit Water System. The City provides sewage treatment through the Southeast Macomb Sanitary District.

The City of Eastpointe's Funds

Our analysis of the City of Eastpointe's major funds begins on pages 12, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Eastpointe as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing and voted special property tax millages. The City of Eastpointe's major funds for 2008 include the General Fund, the Public Safety Fund, the Major Streets Fund, and the Local Streets Funds.

The General Fund accounts for most of the City's governmental services. The most significant is general operating, which incurred expenditures of approximately \$2.9 million in 2008. Police and fire services are supported by General Fund contributions and a special public safety millage, all of which are recorded in the Public Safety Fund. The Public Safety Fund recorded the receipt of approximately \$5.5 million from the public safety millage and a transfer of approximately \$6.1 million from the General Fund. The amount transferred from the General Fund is determined based on estimated costs to maintain police and fire services, as well as specific capital outlay approved by the City Council. The Major Streets Fund and Local Streets Fund are supported by state-shared gas and weight taxes. State funding of approximately \$1.4 million and \$513,000 was reported in 2008 for the Major Streets Fund and Local Streets Fund, respectively.

General Fund Budgetary Highlights

Over the course of the year, the City Council and City administration monitor and amend the budget to take into account unanticipated events during the year. The most significant change to the budget includes an increase to state sources for approximately \$341,000 and an increase to transfers out of approximately \$3.1 million. All other changes to the original budget were minimal. At year end, actual General Fund revenues came in \$241,185 higher than the amended budget. In addition, operating budgets for the City's General Fund departments, stayed below budget, resulting in total expenditures of \$736,933 below budget. Expenditures were under budget primarily due to savings from personnel vacancies through attrition and overall tighter controls on spending. City administration amended the budget as major expenditures occurred with a comprehensive review and amendment prepared at mid-year, and again at year end, to reflect changes to anticipated revenues, debt obligations, and capital improvements. In addition, departments continued to assess every purchase and exercise cost savings measures which provided a positive result on the General Fund's fund balance at year end with an increase from \$9,946,663 a year ago to \$10,146,583 at June 30, 2008.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2008, the City of Eastpointe had \$48.3 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, and water and sewer lines. The City invested approximately \$3.1 million for the construction of the new City Hall facility, furnishings, and the plaza area during 2008. The old facility was obsolete, asbestos laden, and in need of many costly repairs, which facilitated the final decision for new construction. Additionally, the City of Eastpointe has invested significantly in roads within the major and local street system, sidewalks, and water and sewer lines since 1980. The value of infrastructure assets, net of depreciation contained in this report, is \$36.5 million for fiscal year 2008.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets (see Note 7 of the notes to the basic financial statements for additional information).

Economic Factors and Next Year's Budgets and Rates

The City of Eastpointe's budget for next year maintains the general operating millage at the same rate as the current year. However, a decrease in the City's taxable value, of approximately \$2.5 million, will produce a decrease in tax collections for City operations. Because of the impact of Proposal A, the City continues to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result is that the total taxable value for the City will grow by less than inflation, before considering new property additions.

While the State approved a 4 percent increase to statutory revenue-sharing payments for the next fiscal year, state cutbacks, a slowing economy, and the resulting impact on sales tax receipts available for distribution to local governments are anticipated to have a negative impact on the actual revenue-sharing payments received. These factors, coupled with continuing decreases from historical norms in other revenues, remain as a major impact on the City in maintaining a balanced budget.

Due to the compounding effect of Proposal A, the Tax Reform Act, and reduced state revenue-sharing payments, the City asked and received voter approval of a public safety millage for a period of five years beginning with the 2006 fiscal year. The approximate \$5 million generated from the millage has allowed for the continuance of a fully staffed public safety department and related equipment purchases. Some of the financial burden placed on the General Fund for these necessary services was alleviated through the revenue generated by the millage. In next year's budget, the City will continue building maintenance and improvement plans, equipment replacement purchases, and again make the actuarial required contribution to the employees' retirement system.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Despite the improved financial condition of the City, the City will continue to operate efficiently and evaluate the impact of the changing economy on the next fiscal year. Recent negotiations with various unions and employees groups resulted in containment of current and future costs through changes to healthcare benefits for current employees. Additionally, the City moved to self-insured funding for healthcare plans, recouping funds once held in reserve for the City within the fully insured insurance plan. Approximately \$464,000 was allocated to the Health Care Accumulation Fund to provide funding for future costs of retiree health care. The City's pension system is 84 percent funded with required actuarial determined contributions made by the City on an annual basis. A fluctuating and weakened financial market, resulting in declining investment returns, will challenge the system's ability to help offset future required contributions through investment returns.

The City purchases its water from the City of Detroit. To reduce the cost of water to Eastpointe residents, the City of Eastpointe has entered into a water service contract with the City of Detroit. The rate at which the City of Detroit charges for the purchase of water will be reduced by fifty-seven cents per 1,000 cubic feet in the first year through implementation of public education and water conservation measures. The City will pass on this reduction to its customers through adjustment of its water rate. The City's water and sewer rates are based on anticipated costs of the system in the current fiscal year. Costs include the purchase of water from Detroit, disposal and treatment of sewage, personnel and operating costs, and needed system improvements. An annual evaluation process is undertaken to determine the amount of increase, if any, that is needed to continue providing water service to all users in the City. The City will likely have a public hearing in 2009 to discuss any necessary rate adjustment. This information will also be presented to the public and discussed during the City's budgeting process.

Contacting the City of Eastpointe's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Eastpointe's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at the City of Eastpointe, 23200 Gratiot Avenue, Eastpointe, MI 48021.

City of Eastpointe, Michigan

Statement of Net Assets June 30, 2008

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
Assets				
Cash and cash equivalents (Note 3)	\$ 16,802,314	\$ 3,649,468	\$ 20,451,782	\$ 498,632
Investments (Note 3)	2,726,008	617,728	3,343,736	-
Receivables:				
Taxes	121,223	-	121,223	-
Special assessments	63,010	-	63,010	-
Accounts - Net of governmental activities allowance for doubtful accounts of \$131,720	725,676	5,950,523	6,676,199	-
Due from other governmental units	2,037,586	12,123	2,049,709	-
Prepaid costs and other assets	105,561	-	105,561	16,242
Restricted assets (Note 5)	1,654,191	-	1,654,191	-
Investments in joint ventures (Note 13):				
Southeast Macomb Sanitary District	-	4,254,921	4,254,921	-
South Macomb Disposal Authority	190,207	-	190,207	-
Capital assets (Note 4):				
Nondepreciable	4,952,826	-	4,952,826	-
Depreciable	16,471,995	26,886,599	43,358,594	-
Total assets	45,850,597	41,371,362	87,221,959	514,874
Liabilities				
Accounts payable	1,136,633	744,560	1,881,193	31,036
Accrued and other liabilities	1,017,936	153,224	1,171,160	8,561
Noncurrent liabilities (Note 7):				
Due within one year	131,522	485,454	616,976	85,000
Due in more than one year	6,764,806	9,902,779	16,667,585	175,000
Total liabilities	9,050,897	11,286,017	20,336,914	299,597
Net Assets				
Invested in capital assets - Net of related debt	18,331,484	16,512,418	34,843,902	-
Restricted:				
Public safety	2,244,076	-	2,244,076	-
Library	28,753	-	28,753	-
Sanitation	1,300,234	-	1,300,234	-
Construction projects	1,933,044	-	1,933,044	-
Lake St. Clair clean water initiative	210,600	-	210,600	-
Streets and highways	4,733,783	-	4,733,783	-
Debt service	620,142	-	620,142	-
Unrestricted	7,397,584	13,572,927	20,970,511	215,277
Total net assets	<u>\$ 36,799,700</u>	<u>\$ 30,085,345</u>	<u>\$ 66,885,045</u>	<u>\$ 215,277</u>

City of Eastpointe, Michigan

		Program Revenues		
		Charges for	Operating Grants and Contributions	Capital Grants and Contributions
	Expenses	Services		
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 6,847,276	\$ 2,701,819	\$ 82,356	\$ -
Public safety	13,266,499	1,111,021	38,445	-
Public works	3,749,037	-	1,954,888	496,082
Recreation and culture	2,840,781	629,507	12,323	-
Interest on long-term debt	280,038	-	-	-
Total governmental activities	26,983,631	4,442,347	2,088,012	496,082
Business-type activities - Water and sewer	7,744,736	9,186,583	-	691,582
Total primary government	<u>\$ 34,728,367</u>	<u>\$ 13,628,930</u>	<u>\$ 2,088,012</u>	<u>\$ 1,187,664</u>
Component units:				
Downtown Development Authority	\$ 253,870	\$ -	\$ 41,250	\$ -
Economic Development Corporation	50,063	-	117,500	-
Total component units	<u>\$ 303,933</u>	<u>\$ -</u>	<u>\$ 158,750</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Gain (loss) on sale of capital assets				
Cable fees and other				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (4,063,101)	\$ -	\$ (4,063,101)	\$ -
(12,117,033)	-	(12,117,033)	-
(1,298,067)	-	(1,298,067)	-
(2,198,951)	-	(2,198,951)	-
(280,038)	-	(280,038)	-
(19,957,190)	-	(19,957,190)	-
-	2,133,429	2,133,429	-
(19,957,190)	2,133,429	(17,823,761)	-
-	-	-	(212,620)
-	-	-	67,437
-	-	-	(145,183)
19,274,791	-	19,274,791	265,562
3,729,687	-	3,729,687	-
1,308,066	237,505	1,545,571	31,916
(64,149)	2,210	(61,939)	-
363,908	4,843	368,751	-
(594,813)	594,813	-	-
24,017,490	839,371	24,856,861	297,478
4,060,300	2,972,800	7,033,100	152,295
32,739,400	27,112,545	59,851,945	62,982
\$ 36,799,700	\$ 30,085,345	\$ 66,885,045	\$ 215,277

City of Eastpointe, Michigan

Governmental Funds Balance Sheet June 30, 2008

	Major Special Revenue Funds				Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Public Safety	Major Streets	Local Streets		
Assets						
Cash and cash equivalents (Note 3)	\$ 7,461,908	\$ 1,227,225	\$ 2,530,263	\$ 1,343,843	\$ 4,239,075	\$ 16,802,314
Investments (Note 3)	1,263,282	208,072	428,241	227,436	598,977	2,726,008
Receivables:						
Taxes	121,223	-	-	-	-	121,223
Special assessments	-	-	-	-	63,010	63,010
Accounts - Net of allowance for doubtful accounts of \$27,054	577,516	5,017	-	-	143,143	725,676
Prepaid expenses	6,571	-	-	-	-	6,571
Due from other governmental units	1,683,837	-	221,321	84,026	48,402	2,037,586
Restricted assets (Note 5)	-	-	-	-	1,654,191	1,654,191
Total assets	<u>\$ 11,114,337</u>	<u>\$ 1,440,314</u>	<u>\$ 3,179,825</u>	<u>\$ 1,655,305</u>	<u>\$ 6,746,798</u>	<u>\$ 24,136,579</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 144,760	\$ 79,941	\$ 57,295	\$ 23,969	\$ 830,668	\$ 1,136,633
Accrued and other liabilities	301,266	597,375	7,266	12,817	51,403	970,127
Deferred revenue (Note 8)	521,728	2,339	-	-	189,207	713,274
Total liabilities	967,754	679,655	64,561	36,786	1,071,278	2,820,034
Fund Balances						
Reserved for:						
Prepaid expenses	6,571	-	-	-	-	6,571
Personal property taxes	121,223	-	-	-	-	121,223
Lake St. Clair clean water initiative	-	-	-	-	210,600	210,600
Construction projects	-	-	-	-	1,443,591	1,443,591
Unreserved:						
Designated for subsequent years' expenditures (Note 1)	7,000,000	-	-	-	-	7,000,000
Designated for compensated absences (Note 1)	320,083	651,927	-	-	-	972,010
Undesignated	2,698,706	-	-	-	-	2,698,706
Unreserved, reported in:						
Special Revenue Funds	-	108,732	3,115,264	1,618,519	2,716,298	7,558,813
Debt Service Funds - Designated for debt service	-	-	-	-	620,142	620,142
Capital Projects Funds - Designated for capital improvements	-	-	-	-	684,889	684,889
Total fund balances	<u>10,146,583</u>	<u>760,659</u>	<u>3,115,264</u>	<u>1,618,519</u>	<u>5,675,520</u>	<u>21,316,545</u>
Total liabilities and fund balances	<u>\$ 11,114,337</u>	<u>\$ 1,440,314</u>	<u>\$ 3,179,825</u>	<u>\$ 1,655,305</u>	<u>\$ 6,746,798</u>	<u>\$ 24,136,579</u>

City of Eastpointe, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets June 30, 2008

Total Fund Balances for Governmental Funds \$ 21,316,545

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	21,424,821
Certain receivables are expected to be collected over several years in the Fire/ALS Fund and are not available to pay for current year expenditures	141,646
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	571,628
Long-term bonds payable are not due and payable in the current period and are not reported in the funds	(4,536,928)
Investment in joint venture is not included as an asset in the governmental funds	190,207
Long-term portion of compensated absences is not due and payable in the current period and is not reported in the funds	(972,010)
Accrued interest payable is not reported in the funds	(47,809)
Long-term portion of uninsured losses is not reported in the funds	(40,694)
Debt issuance costs are an expenditure in the governmental funds and are capitalized and amortized over the life of the related debt in the governmental activities	98,990
Net pension obligation in governmental activities is not reported in the funds	(1,346,696)

Net Assets of Governmental Activities \$ 36,799,700

City of Eastpointe, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	Major Special Revenue Funds				Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Public Safety	Major Streets	Local Streets		
Revenue						
Property taxes	\$ 10,021,443	\$ 5,473,528	\$ -	\$ -	\$ 3,779,820	\$ 19,274,791
Special assessments	-	-	-	-	174,720	174,720
Licenses and permits	752,238	-	-	-	-	752,238
Intergovernmental:						
Federal sources	-	13,533	-	-	12,780	26,313
State sources	3,761,781	12,132	1,442,101	512,787	11,186	5,739,987
Charges for services	557,181	-	-	-	480,628	1,037,809
Rental income	158,114	-	-	-	222,386	380,500
Fines and forfeits	1,862,910	-	-	-	221,301	2,084,211
Interest income	495,355	97,965	155,204	87,563	469,360	1,305,447
Other	462,446	162,545	1,399	2,451	42,455	671,296
Total revenue	18,071,468	5,759,703	1,598,704	602,801	5,414,636	31,447,312
Expenditures						
Current:						
General government	5,904,520	-	-	-	-	5,904,520
Public safety	502,278	11,443,383	-	-	859,094	12,804,755
Public works	386,136	-	880,032	539,493	2,341,416	4,147,077
Recreation and culture	1,619,013	-	-	-	778,408	2,397,421
Capital outlay	-	-	-	-	4,635,900	4,635,900
Debt service:						
Principal	-	-	-	-	355,000	355,000
Interest	-	-	-	-	255,034	255,034
Bond issuance costs	-	-	-	-	102,052	102,052
Total expenditures	8,411,947	11,443,383	880,032	539,493	9,326,904	30,601,759
Excess of Revenue Over (Under) Expenditures	9,659,521	(5,683,680)	718,672	63,308	(3,912,268)	845,553
Other Financing Sources (Uses)						
Transfers in	282,700	6,081,623	-	50,000	4,041,330	10,455,653
Transfers out	(9,742,301)	(203,490)	(65,500)	(10,200)	(989,757)	(11,011,248)
Deposit with escrow agent	-	-	-	-	(2,661,427)	(2,661,427)
Proceeds from issuance of debt	-	-	-	-	4,500,000	4,500,000
Bond premium	-	-	-	-	38,071	38,071
Total other financing sources (uses)	(9,459,601)	5,878,133	(65,500)	39,800	4,928,217	1,321,049
Net Change in Fund Balances	199,920	194,453	653,172	103,108	1,015,949	2,166,602
Fund Balances - Beginning of year	9,946,663	566,206	2,462,092	1,515,411	4,659,571	19,149,943
Fund Balances - End of year	\$ 10,146,583	\$ 760,659	\$ 3,115,264	\$ 1,618,519	\$ 5,675,520	\$ 21,316,545

City of Eastpointe, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 2,166,602

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	5,093,766
Depreciation is recorded as an expense in the statement of activities but not in the governmental funds	(1,805,541)
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	162,441
Revenue is reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	3,031
Issuance of debt is revenue in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(4,536,928)
Repayment of bond principal and payments to an escrow agent are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,975,000
Change in investment in joint venture is not recorded in the governmental funds	(89,912)
Interest expense is reported in the statement of activities when a liability is incurred; it is reported in the governmental funds only when payment is due	(25,000)
Changes in accumulated employee sick and vacation pay, as well as estimated general liability and workers' compensation claims, are recorded when earned in the statement of activities	94,692
Change in net pension obligation is recorded when incurred in the statement of activities	14,275
Debt issuance costs are an expenditure in the governmental funds and are capitalized and amortized over the life of the related debt in the governmental activities	98,990
In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the assets sold	(91,116)

Change in Net Assets of Governmental Activities \$ 4,060,300

City of Eastpointe, Michigan

Proprietary Fund - Enterprise Fund Statement of Net Assets June 30, 2008

	Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 3,649,468
Investments (Note 3)	617,728
Customer receivables - Net of allowance for doubtful accounts of \$104,666	5,950,523
Due from other governmental units	<u>12,123</u>
Total current assets	10,229,842
Noncurrent assets:	
Investment in Southeast Macomb Sanitary District (Note 13)	4,254,921
Capital assets - Net (Note 4)	<u>26,886,599</u>
Total noncurrent assets	<u>31,141,520</u>
Total assets	41,371,362
Liabilities	
Current liabilities:	
Accounts payable	744,560
Accrued and other liabilities	153,224
Current portion of long-term debt (Note 7)	<u>485,454</u>
Total current liabilities	1,383,238
Noncurrent liabilities:	
Provision for compensated absences (Note 7)	14,052
Long-term debt - Net of current portion (Note 7)	<u>9,888,727</u>
Total noncurrent liabilities	<u>9,902,779</u>
Total liabilities	<u>11,286,017</u>
Net Assets	
Invested in capital assets - Net of related debt	16,512,418
Unrestricted	<u>13,572,927</u>
Total net assets	<u><u>\$ 30,085,345</u></u>

City of Eastpointe, Michigan

Proprietary Fund - Enterprise Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Water and Sewer Fund
Operating Revenue	
Water sales	\$ 2,284,251
Sewage disposal	4,671,733
Penalties	122,019
Charges for services	<u>2,108,580</u>
Total operating revenue	9,186,583
Operating Expenses	
Water purchases	1,106,816
Sewage treatment	3,530,353
Maintenance and operation	420,936
General and administration	1,399,485
Other	5,466
Depreciation	<u>945,546</u>
Total operating expenses	<u>7,408,602</u>
Operating Income	1,777,981
Nonoperating Revenue (Expense)	
Interest income	237,505
Interest expense	(336,134)
Gain on sale of fixed assets	2,210
Gain on sale of scrap metal	<u>4,843</u>
Total nonoperating expense	<u>(91,576)</u>
Income - Before contributions and transfers	1,686,405
Capital Contributed from Other Governmental Funds	39,218
State Grants	691,582
Transfers from Other Funds	812,595
Transfers to Other Funds	<u>(257,000)</u>
Change in Net Assets	2,972,800
Net Assets - Beginning of year	<u>27,112,545</u>
Net Assets - End of year	<u><u>\$ 30,085,345</u></u>

City of Eastpointe, Michigan

Proprietary Fund - Enterprise Fund Statement of Cash Flows Year Ended June 30, 2008

	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 9,199,375
Payments to suppliers	(6,565,064)
Payments to employees	(460,287)
Other payments	(239,187)
Net cash provided by operating activities	1,934,837
Cash Flows from Noncapital Financing Activities	
Net transfers in	555,595
Scrap metal sales	4,843
Net cash provided by noncapital financing activities	560,438
Cash Flows from Capital and Related Financing Activities	
State grants	691,582
Principal and interest paid on long-term debt	(809,206)
Proceeds from sale of capital assets	2,210
Purchase of capital assets	(1,449,426)
Net cash used in capital and related financing activities	(1,564,840)
Cash Flows from Investing Activities	
Interest received on investments	237,505
Purchase of investments	(387,905)
Proceeds from sales and maturities of investment securities	248,348
Net cash provided by investing activities	97,948
Net Increase in Cash and Cash Equivalents	1,028,383
Cash and Cash Equivalents - Beginning of year	2,621,085
Cash and Cash Equivalents - End of year	\$ 3,649,468
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,777,981
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	945,546
Changes in assets and liabilities:	
Receivables	12,792
Due from other governmental units	(8,699)
Investment in joint venture	(230,488)
Accounts payable	(523,553)
Accrued and other liabilities	(38,742)
Net cash provided by operating activities	\$ 1,934,837
Significant Noncash Investing and Financing Transactions - Contribution of capital assets from other governmental funds	\$ 39,218

City of Eastpointe, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 2,694,618	\$ 56,848
Investments (Note 3):		
Corporate bonds and notes	2,696,676	-
U.S. government securities	3,200,126	-
Common and preferred stock	30,566,472	-
Mutual funds	10,533,364	-
Other receivables	36,723	-
Due from other governmental units	991	-
Total assets	49,728,970	<u>\$ 56,848</u>
Liabilities		
Accounts payable	81,571	\$ -
Accrued and other liabilities	-	50,050
Due to other governmental units	-	6,798
Total liabilities	<u>81,571</u>	<u>\$ 56,848</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 49,647,399</u>	

City of Eastpointe, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2008

Additions

Investment income (loss):	
Interest and dividends	\$ 1,547,355
Net adjustment to fair value of investments	(3,290,820)
Less investment expenses	<u>(327,581)</u>
Net investment loss	(2,071,046)
Employer contributions	<u>4,504,060</u>
Total additions	2,433,014

Deductions

Benefit payments	4,066,202
Health insurance premiums	2,234,566
Administrative expenses	<u>3,570</u>
Total deductions	<u>6,304,338</u>

Change in Net Assets (3,871,324)

Net Assets - Beginning of year 53,518,723

Net Assets - End of year \$ 49,647,399

City of Eastpointe, Michigan

Component Units Statement of Net Assets (Deficit) Year Ended June 30, 2008

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 132,149	\$ 366,483	\$ 498,632
Prepaid costs and other assets	<u>16,242</u>	<u>-</u>	<u>16,242</u>
Total assets	148,391	366,483	514,874
Liabilities			
Accounts payable	30,982	54	31,036
Accrued liabilities	5,857	2,704	8,561
Noncurrent liabilities (Note 7):			
Due within one year	85,000	-	85,000
Due in more than one year	<u>175,000</u>	<u>-</u>	<u>175,000</u>
Total liabilities	<u>296,839</u>	<u>2,758</u>	<u>299,597</u>
Net Assets (Deficit) - Unrestricted	<u><u>\$ (148,448)</u></u>	<u><u>\$ 363,725</u></u>	<u><u>\$ 215,277</u></u>

City of Eastpointe, Michigan

	Program Revenues		
	Expenses	Charges for Services	Operating Grants/Contributions
Downtown Development Authority -			
Community enrichment/development and interest on long-term debt	\$ 253,870	\$ -	\$ 41,250
Economic Development Corporation -			
Public works	50,063	-	117,500
Total governmental activities	<u>\$ 303,933</u>	<u>\$ -</u>	<u>\$ 158,750</u>
General revenues:			
Property taxes			
Interest and other investment earnings			
Total general revenues			
Change in Net Assets			
Net Assets (Deficit) - Beginning of year			
Net Assets (Deficit) - End of year			

**Component Units
Statement of Activities
Year Ended June 30, 2008**

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Total</u>
\$ (212,620)	\$ -	\$ (212,620)
<u>-</u>	<u>67,437</u>	<u>67,437</u>
(212,620)	67,437	(145,183)
265,562	-	265,562
<u>12,836</u>	<u>19,080</u>	<u>31,916</u>
<u>278,398</u>	<u>19,080</u>	<u>297,478</u>
65,778	86,517	152,295
<u>(214,226)</u>	<u>277,208</u>	<u>62,982</u>
<u>\$ (148,448)</u>	<u>\$ 363,725</u>	<u>\$ 215,277</u>

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Eastpointe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Eastpointe, Michigan:

Reporting Entity

The City of Eastpointe, Michigan operates with the council-manager form of government. It is governed by a City Council consisting of a mayor and four council members who are elected at large to overlapping four-year terms. In accordance with the provisions of the City Charter, the City Council appoints, among others, the city manager and the finance director, each of whom reports directly to the City Council. The city manager is responsible for the administration of the affairs of the City, except for those affairs that are the responsibility of other appointed officials. The finance director is responsible for the administration of the financial affairs of the City, including keeping and supervision of accounts, collections of taxes, and the custody and disbursement of City funds.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Blended Component Units

The Building Authority of Eastpointe, an entity legally separate from the City, is governed by a three-member board appointed by the City Council. For financial reporting purposes, the Building Authority is reported as if it were a part of the City's operations because its purpose is to finance and construct buildings for the City. The operations of the Building Authority are reported as nonmajor Debt Service and Capital Projects Funds.

Note I - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Units

The City of Eastpointe Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the city manager and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements for the Downtown Development Authority can be obtained from the administrative offices at 23200 Gratiot Avenue, Eastpointe, MI 48021.

The City of Eastpointe Economic Development Corporation (the EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the city manager and approved by the City Council. Complete financial statements for the EDC can be obtained from the administrative offices at 23200 Gratiot Avenue, Eastpointe, MI 48021.

The City has excluded the Housing Commission from this report since the City does not have the ability to impose its will.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City (the primary government) and its discretely presented component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds, the proprietary fund, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Safety Fund - The Public Safety Fund accounts for police and fire safety activities within the City. Funding is provided primarily through a local property tax levy and a transfer from the General Fund.

Major Streets Fund - The Major Streets Fund accounts for maintenance and improvement activities for streets designated as "major" within the City. Funding is provided primarily through state-shared gas and weight taxes.

Local Streets Fund - The Local Streets Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is provided primarily through state-shared gas and weight taxes.

The City reports the following major Enterprise Fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage and storm water collection system. Funding is provided primarily through user charges.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, it is the City's policy to first apply restricted resources.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges for services to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2007 tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$788 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 12.1754 mills for operating purposes, 1.5580 mills for refuse collection, .8865 mills for library services, 6.9181 mills for public safety, and 2.3331 mills for debt service. This resulted in approximately \$9.6 million for operating, \$1.2 million for refuse collection, \$699,000 for library services, \$5.5 million for public safety, and \$1.8 million for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." There were no balances outstanding between funds, or the governmental and business-type activities at June 30, 2008.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31. These taxes are billed on July 1 of the following year and become a lien on December 1. These taxes are due September 1 with the final collection date of February 28 before they are added to the county tax rolls.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The City has amounts on deposit with the Macomb County Drain Commission for use in the Lake St. Clair Water Initiative that have been classified as restricted assets.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 years
Water and sewer distribution systems	40 years
Buildings and building improvements	20 years
Machinery and equipment	5 to 7 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. General Fund designations of fund balance at June 30, 2008 consist of the following:

	General Fund Designated Fund Balance
Subsequents Year's Expenditures	
Capital improvements	\$ 500,000
Retiree healthcare obligations	2,750,000
State-shared revenue reductions	500,000
ALS/Public Safety millage revenue elimination	3,250,000
	<u>7,000,000</u>
Total	<u>\$ 7,000,000</u>
Compensated Absences	<u>\$ 320,083</u>

In addition to General Fund designations, \$651,927 in public safety fund balance has been designated for compensated absences as of June 30, 2008.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budget reflected in the financial statements:

1. The city manager, on or before 60 days prior to the commencement of the fiscal and budgetary year (July 1), shall prepare and submit to the City Council a complete itemized proposed budget before the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the City Council shall direct, and notice of such public hearing shall be published at least 10 days in advance thereof by the clerk.
3. The City Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The annual budget is prepared by the city manager and adopted by the City Council; subsequent amendments are approved by the City Council. Budgeted amounts of the revenues and expenditures presented for the General and Special Revenue Funds are as amended by the City Council. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund and major Special Revenue Funds is presented in the required supplemental information. A comparison of actual results of operations to the nonmajor Special Revenue Funds' budgets as adopted by the City Council is available at the City offices for inspection. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2007		\$ (2,831,881)
Building permit revenue		232,897
Related expenditures:		
Direct costs	\$ 502,278	
Estimated indirect costs	<u>75,342</u>	
Total construction code expenditures		<u>577,620</u>
Excess of expenditures over revenues		<u>(344,723)</u>
Cumulative shortfall - June 30, 2008		<u><u>\$ (3,176,604)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Employees' Retirement System, the Employees' Death Benefit Fund, and the Retiree Health Care Fund are also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$23,432,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The City held deposits in four financial institutions as of June 30, 2008.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government agency bonds or notes	\$ 2,275,747	00.85 years
U.S. government agency bonds or notes (pension)	2,067,063	11.62 years
U.S. government obligations (pension)	1,133,063	13.25 years
Corporate bonds (pension)	2,696,676	10.49 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 2,124,634	AAA	Standard and Poor's
U.S. government agency bonds or notes	2,275,747	AAA	Standard and Poor's
U.S. government agency bonds or notes (pension)	2,067,063	AAA	Standard and Poor's
Corporate bonds (pension)	2,170,746	AAA - BBB	Standard and Poor's
Corporate bonds (pension)	320,743	Aaa - Baa2	Moody's
Corporate bonds (pension)	205,187	BBB+ - AAA	Standard and Poor's
Commercial paper	1,070,399	A1-A1+	Standard and Poor's
Short-term invested cash (pension)	1,164,251	Not rated	

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer; however, the City's fiduciary funds subject to Michigan Public Act 485 of 1996 are limited by law in that investments in any one issuer (other than the U.S. government) may not exceed 5 percent of total investments. At June 30, 2008, there were no investments in any one issuer (other than the U.S. government) that exceeded 5 percent of total investments for the fiduciary funds.

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Transfers	Balance June 30, 2008
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,486,983	\$ 2,848	\$ 2,143	\$ -	\$ 1,487,688
Infrastructure construction in progress	498,700	3,309,967	-	(343,529)	3,465,138
Subtotal	1,985,683	3,312,815	2,143	(343,529)	4,952,826
Capital assets being depreciated:					
Infrastructure:					
Roads	13,898,698	475,353	-	-	14,374,051
Sidewalks	5,952,893	177,656	-	-	6,130,549
Buildings and building improvements	12,028,654	722,143	497,171	304,311	12,557,937
Machinery and equipment	6,807,976	445,017	167,830	-	7,085,163
Subtotal	38,688,221	1,820,169	665,001	304,311	40,147,700
Accumulated depreciation:					
Infrastructure:					
Roads	7,133,853	516,233	-	-	7,650,086
Sidewalks	2,551,313	241,193	-	-	2,792,506
Buildings and building improvements	8,750,301	421,440	432,923	-	8,738,818
Machinery and equipment	4,010,725	626,675	143,105	-	4,494,295
Subtotal	22,446,192	1,805,541	576,028	-	23,675,705
Net capital assets being depreciated	16,242,029	14,628	88,973	304,311	16,471,995
Net capital assets	\$ 18,227,712	\$ 3,327,443	\$ 91,116	\$ (39,218)	\$ 21,424,821

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Capital Assets (Continued)

	Balance July 1, 2007	Additions	Disposals and Adjustments	Transfers	Balance June 30, 2008
Business-type activities:					
Capital assets being depreciated:					
Buildings	\$ 311,251	\$ 4,566	\$ -	\$ -	\$ 315,817
Utility system	37,290,247	1,425,380	-	39,218	38,754,845
Machinery and equipment	1,274,277	19,480	82,670	-	1,211,087
Subtotal	38,875,775	1,449,426	82,670	39,218	40,281,749
Accumulated depreciation:					
Buildings	296,950	5,986	-	-	302,936
Utility system	11,450,322	865,349	-	-	12,315,671
Machinery and equipment	785,002	74,211	82,670	-	776,543
Subtotal	12,532,274	945,546	82,670	-	13,395,150
Net capital assets	<u>\$ 26,343,501</u>	<u>\$ 503,880</u>	<u>\$ -</u>	<u>\$ 39,218</u>	<u>\$ 26,886,599</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 888,739
Public safety	128,047
Public works	418,748
Recreation and culture	370,007
Total governmental activities	<u>\$ 1,805,541</u>
Business-type activities - Water and sewer	<u>\$ 945,546</u>

Note 5 - Restricted Assets

The City's governmental activities have \$210,600 in funds held by the Macomb County Drain Commission on behalf of the City to be used for the Lake St. Clair Clean Water Initiative, including related debt service. The City's governmental activities also have \$1.4 million in funds restricted for use in the construction of the New City Hall building.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Transfers

Fund Transferred From	Fund Transferred To	Amount
General Fund	Public Safety Fund	\$ 6,081,623
	Nonmajor governmental funds	<u>3,660,678</u>
	Total General Fund	9,742,301
Public Safety Fund	Nonmajor governmental funds	203,490
Major Streets Fund	General Fund	15,500
	Local Streets Fund	<u>50,000</u>
	Total Major Streets Fund	65,500
Local Streets Fund	General Fund	10,200
Nonmajor governmental funds	Water and Sewer Fund	812,595
	Nonmajor governmental funds	<u>177,162</u>
	Total nonmajor governmental funds	989,757
	Total governmental activities	11,011,248
Water and Sewer Fund	General Fund	<u>257,000</u>
	Total	<u>\$ 11,268,248</u>

The transfer from the General Fund to the Public Safety Fund represents unrestricted resources required for current public safety expenditures. All other transfers provided funding for capital projects, capital acquisitions, and debt service.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences and certain risk liabilities.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Transfers	Ending Balance	Due Within One Year
Governmental activities:								
General obligation bond:								
Building Authority General Obligation Bonds								
Amount of issue - \$4,400,000	4.40% -	\$355,000 -						
Maturing through 2014	4.70%	\$460,000	\$ 2,975,000	\$ -	\$ (2,975,000)	\$ -	\$ -	\$ -
Building Authority General Obligation Bonds								
Amount of issue - \$4,500,000	4.25% -	\$90,000 -	-	4,500,000	-	-	4,500,000	90,000
Maturing through 2033	4.375%	\$280,000						
Plus unamortized premium on issuance			-	38,070	(1,142)	-	36,928	1,522
Other long-term obligations:								
Compensated absences			979,070	-	(7,060)	-	972,010	40,000
Net pension obligation			1,360,971	-	(14,275)	-	1,346,696	-
Uninsured losses (Note 9)			128,326	330	(87,962)	-	40,694	-
Total governmental activities			5,443,367	4,538,400	(3,085,439)	-	6,896,328	131,522
Business-type activities - Water and Sewer:								
County Drain Contract:								
Lake St. Clair Clean Water Initiative								
Amount of issue - \$12,144,547	Various	\$178,790 -						
Maturing through 2030	Various	\$731,432	10,847,253	-	(473,072)	-	10,374,181	485,454
Other long-term obligations - Compensated absences			53,403	-	(39,351)	-	14,052	-
Total business-type activities			10,900,656	-	(512,423)	-	10,388,233	485,454
Total			\$ 16,344,023	\$ 4,538,400	\$ (3,597,862)	\$ -	\$ 17,284,561	\$ 616,976
Component unit - 1992 Downtown Development								
Authority Bonds:								
Amount of issue - \$995,000		\$85,000 -						
Maturing through 2011	6.00%	\$90,000	\$ 345,000	\$ -	\$ (85,000)	\$ -	\$ 260,000	\$ 85,000

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond obligations and contracts are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 91,522	\$ 191,250	\$ 282,772	\$ 485,454	\$ 325,828	\$ 811,282
2010	116,523	186,894	303,417	498,940	311,863	810,803
2011	121,523	181,900	303,423	516,125	297,444	813,569
2012	121,523	176,800	298,323	528,509	282,591	811,100
2013	126,523	171,594	298,117	542,659	267,329	809,988
2014-2018	712,614	772,331	1,484,945	2,958,759	1,089,677	4,048,436
2019-2023	872,614	605,731	1,478,345	3,435,608	620,024	4,055,632
2024-2028	1,067,614	401,906	1,469,520	955,341	239,471	1,194,812
2029-2033	1,306,472	146,562	1,453,034	452,786	23,215	476,001
Total	<u>\$ 4,536,928</u>	<u>\$ 2,834,968</u>	<u>\$ 7,371,896</u>	<u>\$ 10,374,181</u>	<u>\$ 3,457,442</u>	<u>\$ 13,831,623</u>

Years Ending June 30	Component Unit		
	Principal	Interest	Total
2009	\$ 85,000	\$ 13,050	\$ 98,050
2010	85,000	7,950	92,950
2011	90,000	2,700	92,700
Total	<u>\$ 260,000</u>	<u>\$ 23,700</u>	<u>\$ 283,700</u>

Defeased Debt - In prior years the City defeased certain bonds by placing City funds or proceeds from new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2008, \$5,205,000 of bonds outstanding are considered defeased.

In the current year, the City used cash on hand of \$2,661,426 (after payment of \$9,750 in issuance costs) to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the long-term debt. The advance refunding reduced total debt service payments over the next six years by \$2,639,298, which represents an economic loss of \$31,878.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

County Contractual Obligations - The above contractual obligations to the County are the result of the County issuance of bonds on behalf of the City and other communities involved in the Lake St. Clair Clean Water Initiative Project. The City has pledged to raise property taxes, to the extent permitted by law, as necessary to fund the obligation to repay the County. The remaining principal and interest to be paid by the City of Eastpointe on the bonds is \$13,831,623. During the current year, total property taxes levied to fund debt obligations of the City totaled \$1,827,871. Total principle and interest paid by the City for County-issued debt totaled \$812,458.

Note 8 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessments	\$ 47,561	\$ -
Delinquent special assessments	524,067	-
Ambulance billings	141,646	-
Total deferred revenue	<u>\$ 713,274</u>	<u>\$ -</u>

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits; settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City participates in the Michigan Municipal Risk Management Authority risk pool for claims other than medical benefits.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Michigan Municipal Risk Management that it uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City of Eastpointe, Michigan.

The City is self-funded for claims up to a retention amount, at which time the City's reinsurance coverage begins. The City estimates the liability for claims that have been incurred through the end of the year, including both those claims that have been reported as well as those that have not been reported.

Changes in the estimated liability by category for the past two fiscal years were as follows:

	General Liability, Auto, and Property		Workers' Compensation	
	2008	2007	2008	2007
Estimated liability - Beginning of year	\$ 124,570	\$ 214,842	\$ 3,756	\$ 2,053
Estimated claims incurred, including changes in estimates	(4,655)	37,975	330	8,403
Claims payments	<u>(82,286)</u>	<u>(128,247)</u>	<u>(1,021)</u>	<u>(6,700)</u>
Estimated liability - End of year	<u>\$ 37,629</u>	<u>\$ 124,570</u>	<u>\$ 3,065</u>	<u>\$ 3,756</u>

Note 10 - Defined Benefit Pension Plan

Plan Description - The City of Eastpointe Employees' Retirement System is the administrator of a single-employer public employees' retirement system, established pursuant to collective bargaining agreements that covers all full-time employees of the City. The system provides retirement and death benefits to plan members and their beneficiaries. At June 30, 2007, the date of the most recent actuarial valuation, membership consisted of 183 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 145 current active employees.

Contributions - Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Plan members are not required to contribute. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates.

Administrative costs of the plan are financed through investment earnings.

Funded Status and Funding Progress - As of June 30, 2007, the date of the most recent actuarial valuation, the plan was 84.0 percent funded. The actuarial accrued liability for benefits was \$59.48 million, and the actuarial value of assets was \$49.96 million, resulting in an unfunded actuarial accrued liability of \$9.52 million. The covered payroll (annual payroll of active employees covered by the plan) was \$9.39 million, and the ratio of unfunded actuarial accrued liability to the covered payroll was 101.0 percent.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
06/30/05	51,215,561	54,961,821	3,746,260	93	9,496,345	39
06/30/06	48,907,812	56,647,165	7,739,353	86	9,429,156	82
06/30/07	49,964,926	59,481,086	9,516,160	84	9,392,368	101

Annual Pension Costs - For the year ended June 30, 2008, the City's annual pension cost was \$1,672,473 for the plan. The annual required contribution was \$1,686,748, which equals the amount contributed by the City during the year. The annual required contribution was determined as part of an actuarial valuation at June 30, 2006, using the individual entry age actuarial funding method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return, (b) projected salary increases of 4 percent to 7 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Defined Benefit Pension Plan (Continued)

Reserves - As of June 30, 2008, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 131,890
Reserve for retired benefit payments	37,525,543

Three-year trend information as of June 30 follows:

Year Ended June 30	Beginning Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Change in Net Pension Obligation	Ending Net Pension Obligation
2006	\$ 622,246	\$ 751,942	-	\$ 751,942	\$ 1,374,188
2007	1,374,188	1,516,203	100%	(13,217)	1,360,971
2008	1,360,971	1,672,433	100%	(14,275)	1,346,696

For the year ended June 30, 2008, the City's annual required pension contribution was \$1,686,748, interest incurred on the prior net pension obligation was \$108,878, and the adjustment to the annual required contribution was \$123,193. The sum of the annual pension contribution and the interest incurred on the prior net pension obligation, less the adjustment to the annual required contribution equals the annual pension cost disclosed above.

Note 11 - Other Postemployment Benefits

Plan Description - The City provides retiree healthcare benefits to eligible employees and their spouses. Benefits are provided to police, fire, and general employee groups. Currently, the plan has 328 members, including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits.

This is a single employer defined benefit plan administered by the City. Benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Note 11 - Other Postemployment Benefits (Continued)

Funding Policy - In the current year, the City paid postemployment healthcare premiums of approximately \$2,235,000, through contributions of approximately \$2,817,000 into the Prefunded Retiree Healthcare Fund, which is reported in this financial statement as a Pension and Other Employee Benefit Trust Fund type.

The estimated funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of June 30, 2008:

Actuarial value of assets	\$ 2,250,959
Actuarial accrued liability	44,937,892
Unfunded AAL	42,686,933
Funded ratio	5.00%
Annual covered payroll	\$ 10,122,526
Ratio of UAAL to covered payroll	31.62%

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 11 - Other Postemployment Benefits (Continued)

In the June 30, 2008 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included an 8.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10 percent initially, grading down to 4 percent over the next eight years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2008 was 30 years.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 12 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment healthcare plans:

	Pension and Other Employee Benefit Trust Funds			
	Employees'	Employees'	Retiree Health	Total
	Retirement System	Death Benefit	Care	
Assets				
Cash and cash equivalents	\$ 1,538,698	\$ 19,319	\$ 1,136,600	\$ 2,694,617
Investments:				
Corporate bonds and notes	2,113,485	530,024	53,167	2,696,676
U.S. government securities	3,012,549	112,810	74,767	3,200,126
Common and preferred stock	29,826,920	-	739,552	30,566,472
Mutual funds	10,035,208	249,096	249,060	10,533,364
Other receivables	36,723	-	-	36,723
Due from other governmental units	991	-	-	991
Total assets	46,564,574	911,249	2,253,146	49,728,969
Liabilities				
Accounts payable	78,559	825	2,187	81,571
Accrued liabilities	-	-	-	-
Due to other governmental units	-	-	-	-
Total liabilities	78,559	825	2,187	81,571
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 46,486,015</u>	<u>\$ 910,424</u>	<u>\$ 2,250,959</u>	<u>\$ 49,647,398</u>

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2008

Note 12 - Pension and Other Employee Benefit Trust Funds (Continued)

	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 1,434,336	\$ 50,461	\$ 62,558	\$ 1,547,355
Net adjustment to fair value of investments	(3,186,647)	(18,970)	(85,203)	(3,290,820)
Less investment expenses	(326,230)	(1,351)	-	(327,581)
Net investment income (loss)	(2,078,541)	30,140	(22,645)	(2,071,046)
Employer contributions	1,686,747	-	2,817,313	4,504,060
Total additions	(391,794)	30,140	2,794,668	2,433,014
Deductions				
Benefit payments	4,057,202	9,000	-	4,066,202
Health insurance premiums	-	-	2,234,566	2,234,566
Administrative expenses	3,570	-	-	3,570
Total deductions	4,060,772	9,000	2,234,566	6,304,338
Change in Net Assets	(4,452,566)	21,140	560,102	(3,871,324)
Net Assets - Beginning of year	50,938,582	889,284	1,690,857	53,518,723
Net Assets - End of year	<u>\$ 46,486,016</u>	<u>\$ 910,424</u>	<u>\$ 2,250,959</u>	<u>\$ 49,647,399</u>

Note 13 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage to participating municipalities in Macomb County, Michigan. Other members include the cities of Roseville and St. Clair Shores, Michigan. The City appoints one member to the joint venture's governing board, who then approves the annual budgets. The City's equity interest of \$4,254,921 is recorded in the Water and Sewer Fund fund financial statements and within the business-type activities column in the statement of net assets.

Complete financial statements for the South Macomb Sanitary District can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 13 - Joint Ventures (Continued)

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, who then approves the annual budgets. The City's equity interest in the Authority's operating reserve of \$190,207 is recorded within the governmental activities column of the statement of activities. The Authority has reserves totaling approximately \$4.76 million that have been designated for self-insurance activities; the participating communities' equity interest in the insurance reserves is not determinable.

Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 14 - Employees' Death Benefit Fund

The Employees' Death Benefit Fund was established by City Ordinance on October 13, 1958 for the purpose of providing a death benefit for employees who elect to participate in the plan. Prior year contributions from the City and plan members have been determined to be sufficient to fully fund the plan at June 30, 2008. Benefits at date of death are payable to designated beneficiaries in varying amounts. The obligation to contribute and maintain the plan was established by negotiation with the City's collective bargaining units.

Note 15 - Subsequent Event

Declines in Investment Values - Subsequent to year end, the City's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of the individual investments fluctuate with market conditions, the amount of the losses that will be recognized in subsequent periods, if any, cannot be determined.

Required Supplemental Information

City of Eastpointe, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 9,982,563	\$ 10,021,443	\$ 10,021,443	\$ -
Licenses and permits	618,204	655,066	752,238	97,172
State sources	3,422,455	3,763,753	3,761,781	(1,972)
Charges for services	387,795	737,868	557,181	(180,687)
Rental income	132,700	144,500	158,114	13,614
Fines and forfeitures	1,907,724	1,903,108	1,862,910	(40,198)
Interest income	100,000	389,500	495,355	105,855
Other	212,972	215,045	462,446	247,401
Total revenue	16,764,413	17,830,283	18,071,468	241,185
Expenditures				
General government:				
City Council	33,993	33,993	30,920	3,073
City manager	378,967	378,967	372,010	6,957
City clerk and elections	300,322	340,322	283,689	56,633
Finance	906,458	906,458	850,785	55,673
Assessor	298,851	298,851	252,445	46,406
Law	186,302	186,302	148,588	37,714
Judicial	1,011,713	1,011,713	972,936	38,777
General operating	2,972,307	3,019,234	2,875,647	143,587
Public safety - Building inspection	544,398	544,398	502,278	42,120
Public works - Administration	475,890	475,890	386,136	89,754
Recreation and culture:				
Administration	648,184	648,184	560,611	87,573
Parks	743,311	754,311	697,376	56,935
Kennedy park pool	95,611	95,611	100,369	(4,758)
Senior citizens' center	207,008	207,008	157,586	49,422
Senior citizen SMART	75,872	75,872	65,532	10,340
Community enrichment and development:				
Planning	44,566	44,566	29,224	15,342
Beautification	9,000	9,700	8,315	1,385
Total expenditures	8,932,753	9,031,380	8,294,447	736,933
Excess of Revenue Over Expenditures	7,831,660	8,798,903	9,777,021	978,118
Other Financing Sources (Uses)				
Transfers in	282,700	282,700	282,700	-
Transfers out	(7,283,079)	(10,384,483)	(9,859,801)	524,682
Total other financing uses	(7,000,379)	(10,101,783)	(9,577,101)	524,682
Net Change in Fund Balance	831,281	(1,302,880)	199,920	1,502,800
Fund Balance - Beginning of year	9,946,663	9,946,663	9,946,663	-
Fund Balance - End of year	<u>\$ 10,777,944</u>	<u>\$ 8,643,783</u>	<u>\$ 10,146,583</u>	<u>\$ 1,502,800</u>

City of Eastpointe, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2008

	Public Safety Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
Property taxes	\$ 5,473,528	\$ 5,473,528	\$ 5,473,528	\$ -
Federal sources	66,572	66,572	13,533	(53,039)
State sources	12,000	12,000	12,132	132
Interest income	101,710	101,710	97,965	(3,745)
Other	-	-	162,545	162,545
Total revenue	5,653,810	5,653,810	5,759,703	105,893
Expenditures - Public safety	<u>11,918,396</u>	<u>11,918,396</u>	<u>11,443,383</u>	<u>475,013</u>
Excess of Expenditures Over Revenue	(6,264,586)	(6,264,586)	(5,683,680)	580,906
Other Financing Sources (Uses)				
Transfers in	6,550,440	6,550,440	6,081,623	(468,817)
Transfers out	<u>(266,786)</u>	<u>(266,786)</u>	<u>(203,490)</u>	<u>63,296</u>
Total other financing sources	<u>6,283,654</u>	<u>6,283,654</u>	<u>5,878,133</u>	<u>(405,521)</u>
Net Change in Fund Balance	19,068	19,068	194,453	175,385
Fund Balance - Beginning of year	<u>566,206</u>	<u>566,206</u>	<u>566,206</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 585,274</u></u>	<u><u>\$ 585,274</u></u>	<u><u>\$ 760,659</u></u>	<u><u>\$ 175,385</u></u>

City of Eastpointe, Michigan

	Major Streets Fund			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Revenue				
State-shared revenue and grants	\$ 1,349,179	\$ 1,454,174	\$ 1,442,101	\$ (12,073)
Interest income	72,300	103,780	155,204	51,424
Other	-	-	1,399	1,399
Total revenue	1,421,479	1,557,954	1,598,704	40,750
Expenditures - Public works	<u>1,443,800</u>	<u>1,443,800</u>	<u>880,032</u>	<u>563,768</u>
Excess of Revenues Over (Under) Expenditures	(22,321)	114,154	718,672	604,518
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	<u>(65,500)</u>	<u>(65,500)</u>	<u>(65,500)</u>	<u>-</u>
Total other financing sources (uses)	<u>(65,500)</u>	<u>(65,500)</u>	<u>(65,500)</u>	<u>-</u>
Net Change in Fund Balances	(87,821)	48,654	653,172	604,518
Fund Balances - Beginning of year	<u>2,462,092</u>	<u>2,462,092</u>	<u>2,462,092</u>	<u>-</u>
Fund Balances - End of year	<u>\$ 2,374,271</u>	<u>\$ 2,510,746</u>	<u>\$ 3,115,264</u>	<u>\$ 604,518</u>

Required Supplemental Information
Budgetary Comparison Schedule
Major Special Revenue Funds (Continued)
Year Ended June 30, 2008

Local Streets Fund			
Original Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 554,218	\$ 554,218	\$ 512,787	\$ (41,431)
31,200	62,530	87,563	25,033
-	2,500	2,451	(49)
585,418	619,248	602,801	(16,447)
653,598	653,598	539,493	114,105
(68,180)	(34,350)	63,308	97,658
50,000	50,000	50,000	-
(10,200)	(10,200)	(10,200)	-
39,800	39,800	39,800	-
(28,380)	5,450	103,108	97,658
1,515,411	1,515,411	1,515,411	-
\$ 1,487,031	\$ 1,520,861	\$ 1,618,519	\$ 97,658

City of Eastpointe, Michigan

Required Supplemental Information Retirement System Schedule of Funding Progress June 30, 2008

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
06/30/02 *	\$ 58,305,372	\$ 45,584,633	\$ (12,720,739)	128	\$ 9,030,827	(141)
06/30/03 *	56,264,305	47,803,994	(8,460,311)	118	9,266,479	(91)
06/30/04	54,289,686	50,999,509	(3,290,177)	106	9,102,598	(36)
06/30/05	51,215,561	54,961,821	3,746,260	93	9,496,345	39
06/30/06 **	48,907,812	56,647,165	7,739,353	86	9,429,156	82
06/30/07	49,964,926	59,481,086	9,516,160	84	9,392,368	101

* Includes changes in benefit provisions

**After changes in actuarial assumptions or methods

City of Eastpointe, Michigan

Required Supplemental Information Retirement System Schedule of Employer Contributions June 30, 2008

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
2003	\$ 10,978	-
2004	174,637	-
2005	432,939	-
2006	777,640	-
2007	1,529,421	100%
2008	1,686,748	100%

* The required contribution is expressed to the City as a percentage of payroll.

The above contributions are for pension benefits only and do not include amounts contributed for healthcare coverage. Amounts contributed for healthcare coverage are recorded in the City's Retiree Health Care Fund, which was established during the City's year ended June 30, 2000.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2007, the latest actuarial valuation, is as follows:

Valuation date	June 30, 2007
Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	4%-7%
*Includes inflation at	4%
Cost of living adjustments	None

City of Eastpointe, Michigan

Note to Required Supplemental Information June 30, 2008

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Special Revenue Funds are presented on the same basis of accounting used in preparing the adopted budgets. Following is a reconciliation of the budgetary comparison schedule for the General Fund to the governmental funds (statement of revenues, expenditures, and changes in fund balance):

	General Fund	
	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 18,071,468	\$ 8,411,947
Expenditure budgeted as a transfer	-	(117,500)
Amounts per budget statement	<u>\$ 18,071,468</u>	<u>\$ 8,294,447</u>

Other Supplemental Information

City of Eastpointe, Michigan

	Nonmajor Special				
	Fire/ALS	Garbage and Rubbish Collection	Library	Drug Law Enforcement	Local Law Enforcement
Assets					
Cash and cash equivalents	\$ 711,893	\$ 1,239,043	\$ 30,381	\$ 459,881	\$ -
Investments	120,498	209,706	4,985	75,634	-
Receivables:					
Special assessments	-	-	-	-	-
Accounts - Net of allowance for doubtful accounts	143,143	-	-	-	-
Due from other governmental units	-	-	46,270	-	-
Restricted assets	-	-	-	-	-
Total assets	<u>\$ 975,534</u>	<u>\$ 1,448,749</u>	<u>\$ 81,636</u>	<u>\$ 535,515</u>	<u>\$ -</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 6,063	\$ 148,515	\$ 22,998	\$ 4,907	\$ -
Accrued and other liabilities	21,518	-	29,885	-	-
Deferred revenue	141,646	-	-	-	-
Total liabilities	169,227	148,515	52,883	4,907	-
Fund Balances					
Reserved for:					
Lake St. Clair clean water initiative	-	-	-	-	-
Construction projects	-	-	-	-	-
Unreserved:					
Designated for debt service	-	-	-	-	-
Designated for capital improvements	-	-	-	-	-
Undesignated	806,307	1,300,234	28,753	530,608	-
Total fund balances	806,307	1,300,234	28,753	530,608	-
Total liabilities and fund balances	<u>\$ 975,534</u>	<u>\$ 1,448,749</u>	<u>\$ 81,636</u>	<u>\$ 535,515</u>	<u>\$ -</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

Revenue Funds					Nonmajor Debt Service Funds	
Juvenile Justice	Welfare and Catastrophe	Community Center	Eastpointe Fire	Memorial Library	Building Authority	Chapter 20 Drain Debt Service
\$ 3,057	\$ 24,908	\$ 15,339	\$ 1,014	\$ 6,618	\$ 7,642	\$ 530,272
-	-	-	-	-	-	89,748
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 3,057</u>	<u>\$ 24,908</u>	<u>\$ 15,339</u>	<u>\$ 1,014</u>	<u>\$ 6,618</u>	<u>\$ 7,642</u>	<u>\$ 620,020</u>
\$ 540	\$ -	\$ -	\$ -	\$ -	\$ 7,383	\$ 137
-	-	-	-	-	-	-
-	-	-	-	-	-	-
540	-	-	-	-	7,383	137
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	259	619,883
-	-	-	-	-	-	-
<u>2,517</u>	<u>24,908</u>	<u>15,339</u>	<u>1,014</u>	<u>6,618</u>	<u>-</u>	<u>-</u>
<u>2,517</u>	<u>24,908</u>	<u>15,339</u>	<u>1,014</u>	<u>6,618</u>	<u>259</u>	<u>619,883</u>
<u>\$ 3,057</u>	<u>\$ 24,908</u>	<u>\$ 15,339</u>	<u>\$ 1,014</u>	<u>\$ 6,618</u>	<u>\$ 7,642</u>	<u>\$ 620,020</u>

City of Eastpointe, Michigan

Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2008

	Nonmajor Capital Projects Funds				Total Nonmajor Governmental Funds
	Capital Improvement	SEMSD Clean Water Initiative	Equipment Replacement	Building Authority Construction	
Assets					
Cash and cash equivalents	\$ 364,716	\$ -	\$ 216,688	\$ 627,623	\$ 4,239,075
Investments	61,727	-	36,679	-	598,977
Receivables:					
Special assessments	63,010	-	-	-	63,010
Accounts - Net of allowance for doubtful accounts	-	-	-	-	143,143
Due from other governmental units	-	-	2,132	-	48,402
Restricted assets	-	210,600	-	1,443,591	1,654,191
	-	-	-	-	-
Total assets	<u>\$ 489,453</u>	<u>\$ 210,600</u>	<u>\$ 255,499</u>	<u>\$ 2,071,214</u>	<u>\$ 6,746,798</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 12,502	\$ 627,623	\$ 830,668
Accrued and other liabilities	-	-	-	-	51,403
Deferred revenue	47,561	-	-	-	189,207
	-	-	-	-	-
Total liabilities	47,561	-	12,502	627,623	1,071,278
Fund Balances					
Reserved for:					
Lake St. Clair clean water initiative	-	210,600	-	-	210,600
Construction projects	-	-	-	1,443,591	1,443,591
Unreserved:					
Designated for debt service	-	-	-	-	620,142
Designated for capital improvements	441,892	-	242,997	-	684,889
Undesignated	-	-	-	-	2,716,298
	-	-	-	-	-
Total fund balances	441,892	210,600	242,997	1,443,591	5,675,520
Total liabilities and fund balances	<u>\$ 489,453</u>	<u>\$ 210,600</u>	<u>\$ 255,499</u>	<u>\$ 2,071,214</u>	<u>\$ 6,746,798</u>

City of Eastpointe, Michigan

	Nonmajor Special				
	Fire /ALS	Garbage and Rubbish Collection	Library	Drug Law Enforcement	Local Law Enforcement
Revenue					
Property taxes	\$ -	\$ 1,232,618	\$ 701,327	\$ -	\$ -
Special assessments	-	-	-	-	-
Intergovernmental:					
Federal sources	-	-	-	-	-
State sources			11,186	-	-
Charges for services	478,519	-	2,109	-	-
Rental income	-	-	-	-	-
Fines and forfeitures	-	-	65,699	155,602	-
Interest	49,938	100,209	8,947	30,641	322
Other	575	1,326	-	16,870	-
Total revenue	529,032	1,334,153	789,268	203,113	322
Expenditures					
Current:					
Public safety	654,988	-	-	159,109	12,311
Public works	-	1,576,120	-	-	-
Recreation and culture	-	-	778,408	-	-
Capital outlay		-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
Total expenditures	654,988	1,576,120	778,408	159,109	12,311
Excess of Revenue Over (Under)					
Expenditures	(125,956)	(241,967)	10,860	44,004	(11,989)
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	(92,732)	-	-	(84,430)	-
Deposits with escrow agent	-	-	-	-	-
Proceeds from issuance of debt	-	-	-	-	-
Bond premium	-	-	-	-	-
Total other financing sources (uses)	(92,732)	-	-	(84,430)	-
Net Change in Fund Balances	(218,688)	(241,967)	10,860	(40,426)	(11,989)
Fund Balances - Beginning of year	1,024,995	1,542,201	17,893	571,034	11,989
Fund Balances - End of year	<u>\$ 806,307</u>	<u>\$ 1,300,234</u>	<u>\$ 28,753</u>	<u>\$ 530,608</u>	<u>\$ -</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2008

Revenue Funds					Nonmajor Debt Service Funds	
Juvenile Justice	Welfare and Catastrophe	Community Center	Eastpointe Fire	Memorial Library	Building Authority	Chapter 20 Drain Debt Service
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,845,875
-	-	-	-	-	-	-
12,780	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1,399	862	52	362	-	44,421
19,907	-	-	337	800	-	-
32,687	1,399	862	389	1,162	-	1,890,296
32,686	-	-	-	-	-	-
-	-	-	-	-	10,033	755,263
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	355,000	-
-	-	-	-	-	255,034	-
-	-	-	-	-	-	-
32,686	-	-	-	-	620,067	755,263
1	1,399	862	389	1,162	(620,067)	1,135,033
-	-	-	-	-	3,281,361	-
-	-	-	-	-	-	(812,595)
-	-	-	-	-	(2,661,427)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	619,934	(812,595)
1	1,399	862	389	1,162	(133)	322,438
2,516	23,509	14,477	625	5,456	392	297,445
<u>\$ 2,517</u>	<u>\$ 24,908</u>	<u>\$ 15,339</u>	<u>\$ 1,014</u>	<u>\$ 6,618</u>	<u>\$ 259</u>	<u>\$ 619,883</u>

City of Eastpointe, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2008

	Nonmajor Capital Projects Funds				
	Capital Improvement	SEMSD Clean Water Initiative	Equipment Replacement	Building Authority Construction	Total Nonmajor Governmental Funds
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 3,779,820
Special assessments	174,720	-	-	-	174,720
Intergovernmental:					
Federal sources	-	-	-	-	12,780
State sources	-	-	-	-	11,186
Charges for services	-	-	-	-	480,628
Rental income	-	-	222,386	-	222,386
Fines and forfeitures	-	-	-	-	221,301
Interest	24,467	48,728	15,868	143,144	469,360
Other	-	-	-	2,640	42,455
Total revenue	199,187	48,728	238,254	145,784	5,414,636
Expenditures					
Current:					
Public safety	-	-	-	-	859,094
Public works	-	-	-	-	2,341,416
Recreation and culture	-	-	-	-	778,408
Capital outlay	177,657	39,218	1,153,330	3,265,695	4,635,900
Debt service:					
Principal	-	-	-	-	355,000
Interest	-	-	-	-	255,034
Bond issuance costs	-	-	-	102,052	102,052
Total expenditures	177,657	39,218	1,153,330	3,367,747	9,326,904
Excess of Revenue Over (Under) Expenditures	21,530	9,510	(915,076)	(3,221,963)	(3,912,268)
Other Financing Sources (Uses)					
Transfers in	-	-	759,969	-	4,041,330
Transfers out	-	-	-	-	(989,757)
Deposits with escrow agent	-	-	-	-	(2,661,427)
Proceeds from issuance of debt	-	-	-	4,500,000	4,500,000
Bond premium	-	-	-	38,071	38,071
Total other financing sources (uses)	-	-	759,969	4,538,071	4,928,217
Net Change in Fund Balances	21,530	9,510	(155,107)	1,316,108	1,015,949
Fund Balances - Beginning of year	420,362	201,090	398,104	127,483	4,659,571
Fund Balances - End of year	\$ 441,892	\$ 210,600	\$ 242,997	\$ 1,443,591	\$ 5,675,520

City of Eastpointe, Michigan

	Pension and Other Employee Benefit Trust Funds			
	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
Assets				
Cash and cash equivalents	\$ 1,538,698	\$ 19,319	\$ 1,136,600	\$ 2,694,617
Investments:				
Corporate bonds and notes	2,113,485	530,024	53,167	2,696,676
U.S. government securities	3,012,549	112,810	74,767	3,200,126
Common and preferred stock	29,826,920	-	739,552	30,566,472
Mutual funds	10,035,208	249,096	249,060	10,533,364
Other receivables	36,723	-	-	36,723
Due from other governmental units	991	-	-	991
 Total assets	 46,564,574	 911,249	 2,253,146	 49,728,969
Liabilities				
Accounts payable	78,559	825	2,187	81,571
Accrued liabilities	-	-	-	-
Due to other governmental units	-	-	-	-
 Total liabilities	 78,559	 825	 2,187	 81,571
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 46,486,015</u>	<u>\$ 910,424</u>	<u>\$ 2,250,959</u>	<u>\$ 49,647,398</u>

Other Supplemental Information
Combining Statement of Net Assets
Fiduciary Funds
June 30, 2008

Agency Funds				
Cash and Performance Bonds	Tax Collection	Imprest Payroll	AFLAC	Total
\$ 50,050	\$ 2,517	\$ -	\$ 4,281	\$ 56,848
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 50,050</u>	<u>\$ 2,517</u>	<u>\$ -</u>	<u>\$ 4,281</u>	<u>\$ 56,848</u>
\$ -	\$ -	\$ -	\$ -	\$ -
50,050	-	-	-	50,050
<u>-</u>	<u>2,517</u>	<u>-</u>	<u>4,281</u>	<u>6,798</u>
<u>\$ 50,050</u>	<u>\$ 2,517</u>	<u>\$ -</u>	<u>\$ 4,281</u>	<u>\$ 56,848</u>

City of Eastpointe, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2008

	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
Additions				
Investment income (loss):				
Interest and dividends	\$ 1,434,336	\$ 50,461	\$ 62,558	\$ 1,547,355
Net adjustment to fair value of investments	(3,186,647)	(18,970)	(85,203)	(3,290,820)
Less investment expenses	(326,230)	(1,351)	-	(327,581)
Net investment income (loss)	(2,078,541)	30,140	(22,645)	(2,071,046)
Employer contributions	1,686,747	-	2,817,313	4,504,060
Total additions	(391,794)	30,140	2,794,668	2,433,014
Deductions				
Benefit payments	4,057,202	9,000	-	4,066,202
Health insurance premiums	-	-	2,234,566	2,234,566
Administrative expenses	3,570	-	-	3,570
Total deductions	4,060,772	9,000	2,234,566	6,304,338
Change in Net Assets	(4,452,566)	21,140	560,102	(3,871,324)
Net Assets - Beginning of year	50,938,582	889,284	1,690,857	53,518,723
Net Assets - End of year	<u>\$ 46,486,016</u>	<u>\$ 910,424</u>	<u>\$ 2,250,959</u>	<u>\$ 49,647,399</u>

City of Eastpointe, Michigan

Schedule of Indebtedness June 30, 2008

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30	
				2008	2007
County Drain Contract					
Lake St. Clair Clean Water Initiative Drainage District:					
Drainage District Bonds					
Date of issue - Various					
Amount of issue - \$12,144,547					
Various		10/01/07	\$ -	\$ -	\$ 473,072
Various		10/01/08	485,454	485,454	485,454
Various		10/01/09	498,940	498,940	498,940
Various		10/01/10	516,125	516,125	516,125
Various		10/01/11	528,509	528,509	528,509
Various		10/01/12	542,659	542,659	542,659
Various		10/01/13	559,112	559,112	559,112
Various		10/01/14	573,950	573,950	573,950
Various		10/01/15	591,281	591,281	591,281
Various		10/01/16	607,682	607,682	607,682
Various		10/01/17	626,734	626,734	626,734
Various		10/01/18	645,954	645,954	645,954
Various		10/01/19	666,620	666,620	666,620
Various		10/01/20	684,632	684,632	684,632
Various		10/01/21	706,969	706,969	706,969
Various		10/01/22	731,433	731,433	731,433
Various		10/01/23	181,161	181,161	181,161
Various		10/01/24	178,790	178,790	178,790
Various		10/01/25	188,581	188,581	188,581
Various		10/01/26	199,055	199,055	199,055
Various		10/01/27	207,754	207,754	207,754
Various		10/01/28	221,775	221,775	221,775
Various		10/01/29	231,011	231,011	231,011
Total County Drain Contract				10,374,181	10,847,253

City of Eastpointe, Michigan

Schedule of Indebtedness (Continued) June 30, 2008

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	June 30	
				2008	2007
General Obligation Bonds					
Building Authority General Obligation Bonds					
Date of issue - August 8, 2007					
Amount of issue - \$4,500,000					
	4.250	10/01/08	\$ 90,000	\$ 90,000	\$ -
	4.250	10/01/09	115,000	115,000	-
	4.250	10/01/10	120,000	120,000	-
	4.250	10/01/11	120,000	120,000	-
	4.250	10/01/12	125,000	125,000	-
	4.250	10/01/13	130,000	130,000	-
	4.250	10/01/14	135,000	135,000	-
	4.250	10/01/15	140,000	140,000	-
	4.250	10/01/16	145,000	145,000	-
	4.250	10/01/17	155,000	155,000	-
	4.250	10/01/18	160,000	160,000	-
	4.250	10/01/19	165,000	165,000	-
	4.250	10/01/20	175,000	175,000	-
	4.250	10/01/21	180,000	180,000	-
	4.250	10/01/22	185,000	185,000	-
	4.250	10/01/23	195,000	195,000	-
	4.250	10/01/24	205,000	205,000	-
	4.250	10/01/25	210,000	210,000	-
	4.250	10/01/26	220,000	220,000	-
	4.375	10/01/27	230,000	230,000	-
	4.375	10/01/28	240,000	240,000	-
	4.375	10/01/29	250,000	250,000	-
	4.375	10/01/30	260,000	260,000	-
	4.375	10/01/31	270,000	270,000	-
	4.375	10/01/32	280,000	280,000	-
Total general obligation bonds				4,500,000	-
Total indebtedness				\$ 14,874,181	\$ 10,847,253

City of Eastpointe

**Report on Internal Controls and Other Matters
to the Honorable Mayor and City Council
June 30, 2008**

To the Honorable Mayor
and City Council
City of Eastpointe, Michigan

We have recently completed our audit of the basic financial statements of the City of Eastpointe (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following communication.

	<u>Page</u>
Report on Internal Control and Other Matters (SAS 112 Letter)	1-3
Results of the Audit (SAS 114 Letter)	4-6
Other Informational and Legislative Items	7-14
Summary of Unrecorded Possible Adjustments (Attachment to the SAS 114 Letter)	15-16

This communication is intended solely for the information and use of management, the Honorable Mayor, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

We are grateful for the opportunity to be of service to the City of Eastpointe, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC



David Helisek



Jenny L. Cederstrom

Report on Internal Control and Other Matters

December 1, 2008

To the Honorable Mayor
and City Council
City of Eastpointe, Michigan

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City of Eastpointe's financial management. Specifically, the auditing standards require us to report internal control issues to the governing body that may be relatively minor, in order to allow the governing body to evaluate the significance, and make any changes deemed appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of Eastpointe as of and for the year ended June 20, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

To the Honorable Mayor
and City Council
City of Eastpointe, Michigan

We consider the following deficiencies to be significant deficiencies in internal control:

Audit Adjustments - As a result of the auditing procedures performed, we detected and proposed the following audit adjustments. In all instances, the City posted the proposed journal entries to more accurately reflect the financial condition of the City at June 30, 2008.

- **Investment Valuation** - During our testing of investments, we noted that certain investments held by the City were recorded at cost at year end. In accordance with generally accepted accounting principles, these assets should be recorded at fair market value. A correcting journal entry was posted to accurately reflect investments at fair market value as of June 30, 2008.
- **Water and Sewer Revenue** - During our testing of water and sewer revenue, we noted that water revenue, charges for services, and penalties were understated while sewer revenue was overstated by approximately \$417,000. Upon further investigation, it was determined that revenue in total was accurate (i.e., the overall impact of the correcting journal entry is zero). However, classification errors amongst the various revenue accounts occurred when posting the delinquent water and sewer revenue activity. Correcting entries were posted to account for this activity in the correct general ledger accounts.
- **Lake St. Clair Clean Water Initiative** - During the audit, we provided assistance to correct the City's portion of Lake St. Clair Clean Water Initiative activity on the modified accrual and full accrual statements. The Clean Water Initiative activity involves the recording of unique transactions at year end based on information provided by the County. This reporting is more complex than the day-to-day operational activity of the City.
- **Retainage Payable** - During the audit, we noted no accrual for contractor retainers relative to the construction of the new City Hall. A correcting journal entry was posted to account for this retainage payable.

We also noted control deficiencies not deemed to be significant, as well as other matters we would like to communicate to you. In an effort to assist with the City's continuous improvement efforts, we offer the following observations/recommendations:

Documentation of Internal Controls - We noted several instances where internal control procedures were being preformed by City personnel, but documentation was not retained. They are as follows:

- Documentation was not retained to evidence that budget reports were reviewed by department heads.
- Documentation was not retained to evidence that department heads perform an annual capital asset inventory and report all disposals to the finance department.
- We noted no signature and date on the bank reconciliations to evidence timely preparation and review of the bank reconciliations.

To the Honorable Mayor
and City Council
City of Eastpointe, Michigan

- We noted no supervisory signature and date on the wire transfers to evidence a supervisory review of the nature and amount of the transaction.

Net Assets - During our review of the governmental activities net assets, we noted that net assets as the beginning of the year did not agree to the net assets reported in the June 30, 2007 audited financial statements. While this difference was immaterial and subsequently corrected, we encourage the City to compare ending fund balance/net assets for all funds to the audited financial statements before closing out the year end.

Submission of Actuarial Data - It is our understanding that data submitted to the actuary is not subject to a secondary review before submission. To strengthen controls in this area, we recommend a supervisory review be performed before final submission to the actuary. This will help ensure that errors do not go undetected.

Garbage and Rubbish Collection - The City currently has an available fund balance of approximately \$1.3 million in the Garbage and Rubbish Collection Fund, which represents approximately 82 percent of current year expenditures. We recommend the City consider available fund balance reserves when determining the future garbage and rubbish millage rate.

Information Technology - As part of our audit this year, an IT specialist reviewed the City's general IT controls in order for us to assess the impact on our auditing procedures. Although no significant control issues were discovered in this limited review, there are a few items for your consideration. We have included those comments in an attachment to this communication.

This communication is intended solely for the information and use of management, the Honorable Mayor, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

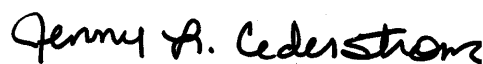
We are grateful for the opportunity to be of service to the City of Eastpointe. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC



David Helisek



Jenny L. Cederstrom

Results of the Audit

December 1, 2008

To the Honorable Mayor
and City Council
City of Eastpointe, Michigan

We have audited the financial statements of the City of Eastpointe for the year ended June 30, 2008 and have issued our report thereon dated December 1, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 15, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Eastpointe. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on October 22, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Eastpointe are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year ended June 30, 2008.

To the Honorable Mayor
and City Council
City of Eastpointe, Michigan

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are the capital assets and long-term debt recorded to account for the City's portion of the Lake St. Clair Clean Water Initiative construction project.

The City's portion of the capital assets and long-term debt has been determined based on estimates provided by Macomb County, the administrator of the project. We evaluated the key factors and assumptions used in determining the estimated amounts, and believe the amounts recorded are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

All significant audit adjustments proposed and posted as a result of our audit were communicated to you in our report on internal control (SAS 112 Letter) dated December 1, 2008.

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

To the Honorable Mayor
and City Council
City of Eastpointe, Michigan

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 1, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City’s auditors.

This communication is intended solely for the information and use of management, the Honorable Mayor, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.


We are grateful for the opportunity to be of service to the City of Eastpointe. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC



David Helisek



Jenny L. Cederstrom

Informational

Revenue Sharing

The governor released her proposal of the State's fiscal year 2009 budget (for the year ending September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the legislature further debated the level of the revenue-sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ending September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in FY 2007. This proposal was presented to the governor on July 25, and enacted in mid-August.

Here is a summary (in millions of dollars) of the revenue-sharing budget submitted to the Governor:

	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	% change
Cities, Villages and Townships:				
Constitutional	\$ 665.980	\$ 682.780	\$ 675.992	-0.99%
Statutory	404.920	392.050	406.933	3.80%
total to CVT's	1,070.900	1,074.830	1,082.925	0.75%
Counties (statutory)	-	-	2.394	n/a
Total revenue sharing	\$ 1,070.900	\$ 1,074.830	\$ 1,085.319	0.98%

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in FY 2009 to equal the total of constitutional and statutory revenue sharing received in FY 2008, plus an additional payment equal to 2 percent of the FY 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for FY 2009 will be identical to the amounts received in FY 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve-fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

City of Eastpointe, Michigan

Informational

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

The table below details state-shared revenue for the City since 2001 broken out by statutory and constitutional portions.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	\$2,509,352	\$2,211,331	\$4,720,683	\$ -
2002	2,313,537	2,233,856	4,547,393	173,290
2003	2,101,340	2,271,676	4,373,016	347,667
2004	1,683,261	2,246,999	3,930,260	790,423
2005	1,586,798	2,300,622	3,887,420	833,263
2006	1,504,374	2,339,792	3,844,166	876,517
2007	1,438,513	2,291,174	3,729,687	990,996
2008	1,362,017	2,367,670	3,729,687	990,996
2009 est.	1,432,830	2,325,627	3,758,457	962,226

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$1.4 million at risk in its General Fund budget based on 2009 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the time frame of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have re-learned in recent months, there is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values).

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value,” needs to be added to the Proposal A formula. In what some are calling a “super cap,” the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. To date, a proposal to accomplish this change has not moved through the legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the 6 mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.

Reminder - Change in Investment Act

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund (MSF) to their Local Street Fund (LSF) at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

FACT Act - Potential Impact on Municipal Utility Systems

The Fair and Accurate Credit Transactions Act was passed in 2003, with final regulations published at the end of 2007. These FTC rules, and more specifically the Red Flag Rules encompassed in them, may be applicable to municipal utility systems. The rules, put in place as a measure to protect against identity theft, indicate that a “creditor” with a “covered account” must implement a written identify theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of a covered account or any existing covered account.

Under the rules, a creditor is defined very broadly, encompassing any entity that defers payment for goods and services, as defined under the Red Flag Rules. This most likely includes municipalities that “defer payments” by their utility customers when water, sewer, electric, gas, trash, and the like are sold to customers day by day but paid for at the end of the billing cycle.

The act would require written policies and procedures to be put in place to identify and follow up on red flags. Red flags, just as an example, would be the presentation by the customer of suspicious personal information that is inconsistent with external sources or suspicious documents provided for identification that appear to be alerted. The regulations appear to be flexible so that each government would have the ability to design an identity theft program that is tailored to its particular operation, given its size, technology currently utilized, and the perceived risk of identity theft in its community.

We encourage you to follow up with legal counsel if you believe this act may apply to your governmental unit.

Other Legislative Items

As part of Michigan's new "Planning Enabling Act," many local governments will now be required to prepare an annual "capital improvements program." This new requirement is effective September 1, 2008. According to Public Act 33 of 2008, a planning commission, after the adoption of a master plan, shall annually prepare a capital improvements program of public structures and improvements. The law does allow that if the planning commission is exempted from this requirement, the legislative body shall prepare and adopt a capital improvements program or delegate this responsibility to the administration of the local unit for the ultimate approval by the legislative body. The law provides that the capital improvement program report public structures and improvements that, in the community's judgment, will be needed or desirable within the next six years. The law also requires that the public structures and improvements included in the capital improvements program be prioritized. Townships that do not either individually or jointly own or operate a water supply or sewage disposal system are exempt from this requirement. In general, Plante & Moran, PLLC strongly encourages the development of a capital plan. While the law is restricted to "public structures and improvements," we strongly encourage the inclusion of all capital assets - vehicles, machinery and equipment, office furnishing, etc. In addition, we feel the participation of the governing body (in addition to or instead of) the planning commission is good public policy.

This same public act added several other requirements of planning commissions, including annual reporting by the planning commission to the legislative body along with the mandatory creation of a master plan.

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as "Public Act 20" which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.

- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.

Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2008	2.3%
2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2008, the City's Headlee maximum property tax rate for its operating levy was 12.1815 mills even though City Charter would allow the City to levy 15 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), will continue downward pressure on millage rates particularly given the significant gap that now exists between taxable value and state equalized value.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

City of Eastpointe, Michigan

Client: City of Eastpointe
 Opinion Unit: Governmental Activities
 Y/E: 6/30/2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses
KNOWN MISSTATEMENTS:								
A1	To write off uncollectible accounts	\$ (104,955)						\$ 104,955
A2								
ESTIMATE ADJUSTMENTS:								
B1								
B2								
IMPLIED ADJUSTMENTS								
C1								
C2								
Total		<u>\$ (104,955)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 104,955</u>

We believe the unrecorded possible adjustments listed above are immaterial to the City's financial statements, both individually and in aggregate.

 Darwin D. Parks, City Manager

 Susan B. Mancani, Finance Director

City of Eastpointe, Michigan

Client: **City of Eastpointe**
 Opinion Unit: **General Fund (Major Governmental Fund)**
 Y/E: **6/30/2008**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses
KNOWN MISSTATEMENTS:								
A1	To defer revenue for current year receivables not received within 60 days of year end, and to adjust fund balance for prior year receivables not received within 60 days of year end, and not deferred in a prior period			\$ 121,223		\$ (69,726)	\$ (51,497)	
A2	To write off uncollectible accounts	\$ (104,955)						\$ 104,955
ESTIMATE ADJUSTMENTS:								
B1								
B2								
IMPLIED ADJUSTMENTS								
C1								
C2								
		-	\$ -	-	\$ -	-	-	-
Total		<u>\$ (104,955)</u>	<u>\$ -</u>	<u>\$ 121,223</u>	<u>\$ -</u>	<u>\$ (69,726)</u>	<u>\$ (51,497)</u>	<u>\$ 104,955</u>

We believe the unrecorded possible adjustments listed above are immaterial to the City's financial statements, both individually and in aggregate.

 Darwin D. Parks, City Manager

 Susan B. Mancani, Finance Director